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Mexico

Coffee

Annual

2005

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Report Highlights:
Despite the fact that hurricane Stan damaged 130,000 hectares of coffee plantings in MY 2005/06, beneficial weather, ample residual humidity, and attractive prices are expected to lead to an increase in Mexican coffee production for the 2006/07 marketing year. As a result of expanded production and higher international prices, Mexican coffee exports are also expected to increase to 3.3 million 60-kilogram bags.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
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SECTION I. STATISTICAL TABLES

PS&D, COFFEE

PSD Table						
Country	Mexico					
Commodity	Coffee, Green		(1000 HA)(MILLION TREES)(1000 60 KG BAGS)			
	2005 Revised		2006 Estimate		2007 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	10/2004		10/2005		10/2006	
Area Planted	730	730	730	685	0	700
Area Harvested	600	600	600	600	0	600
Bearing Trees	700	700	700	700	0	700
Non-Bearing Trees	180	180	180	180	0	180
TOTAL Tree Population	880	880	880	880	0	880
Beginning Stocks	0	0	0	566	0	700
Arabica Production	3850	3800	4050	3800	0	4000
Robusta Production	130	100	150	200	0	200
Other Production	0	0	0	0	0	0
TOTAL Production	3980	3900	4200	4000	0	4200
Bean Imports	132	145	130	168	0	140
Roast & Ground Imports	15	28	10	89	0	50
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	147	173	140	257	0	190
TOTAL SUPPLY	4127	4073	4340	4823	0	5090
Bean Exports	2977	1907	3140	2400	0	3300
Roast & Ground Exports	20	20	20	20	0	20
Soluble Exports	180	180	180	180	0	180
TOTAL Exports	3177	2107	3340	2600	0	3500
Rst,Ground Dom. Consum	500	950	550	1000	0	956
Soluble Dom. Consum.	450	450	450	523	0	400
TOTAL Dom. Consumption	950	1400	1000	1523	0	1356
Ending Stocks	0	566	0	700	0	234
TOTAL DISTRIBUTION	4127	4073	4340	4823	0	5090

TRADE MATRIX

COFFEE			UNITS: Metric Tons
Exports to:		**Imports from:**	
Destination	**CY 2005**	Origin	**CY 2005**
U.S.	58,426	U.S.	1,123
Japan	5,842	Brazil	248
Other not listed	29,920	Other not listed	389
Grand Total	94,188	Grand Total	1,760

Source: Global Trade Information Services, Inc. World Trade Atlas, Mexico Edition, January, 2006.
Note: figures are in green bean equivalent - GBE

SECTION II. NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

PRODUCTION

Mexican coffee production for MY 2006/07 (Oct-Sept) is forecast at 4.2 million 60-kilogram bags, an increase of 5.0 percent over last year's production. This increase assumes that good weather and ample residual humidity in production areas will prevail. The decrease in world coffee production and inventories, and the expectation that international prices will increase, should drive an increase in Mexican coffee production over at least the short term.

Due to geographical and climatological conditions, Mexico is ideally suited for coffee production. About 97 percent of the coffee produced in Mexico is of the *arabica* variety, and 3 percent is of the *robusta* variety. Production of *robusta*, which is characterized by lower production costs and high yields relative to *arabica*, has been stable due to greater demand from coffee processing companies. Although *robusta* production is growing, it appears unlikely that its share of Mexican production will increase significantly, as *arabica* beans are of higher quality and more preferred in international markets.

A number of factors have combined to reduce production since the 1999/2000 marketing year. These factors include:

1. Low international prices,
2. A lack of appropriate domestic infrastructure,
3. Inefficient marketing and distribution channels.

However, the leaders from the Mexican coffee industry indicate that they are confident that the sector is on the upswing in light of higher international prices. Coffee industry leaders, along with Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Foodstuffs (SAGARPA), have recently collaborated to consolidate several coffee related associations into a new umbrella group, the National Coffee System (NCS). The NCS will act as the official legal representative for coffee growers, processors, and shippers. Industry leaders are hopeful that this new organization will enable Mexico to better access key international markets.

The MY2005/06 production estimate was revised downward due to the effects of hurricane Stan in coffee producing regions. Heavy rainfall led to a drop in green coffee production, damaged crucial infrastructure, and led to landslides that damaged considerable amounts of productive land. This hurricane damage was compounded by the fact that low international prices have been causing farmers to abandon their land for the past several years. The States of Chiapas, Veracruz, Puebla, and Oaxaca account for nearly 90 percent of the Mexico's coffee production. In October 2005, hurricane Stan damaged 130,000 hectares devoted to coffee production in these main producing states. In the State of Chiapas, the country's main organic coffee producing area, four production regions were severely affected; Fraylesca, Sierra, Soconusco, and Istmo-Costa. The federal and state government responded to this disaster by working together to develop grant and loan programs to aid in the redevelopment of these farms. Despite the damage to these states, it is expected that the unaffected, or slightly affected, coffee producing regions will increase production, and make up for most of the losses related to Hurricane Stan. The MY 2004/05 production estimate reflects the latest official data.

International coffee prices in MY 2006/07 are expected to rebound due to a tightening of world supplies. Because of low prices over the past several years many coffee farmers were forced out of business, as they were not been able to cover their costs of production for conventional coffee. However, the low prices also fueled a migration towards the production of organic and specialty coffee, which often command higher prices. Unofficially, the production of organic coffee in Mexico accounts for approximately 250,000 60 kilogram bags.

Farmers in the state of Chiapas produce nearly 80,000 60 kg. bags. Organic production practices are more profitable because they limit the use of chemicals, fertilizers, and pesticides. Currently, Mexico is the world's main organic coffee producer.

The cost of production of a "quintal" (60 kilograms of green bean coffee) for MY 2005/06 was around U.S. $75.00 - $80.00, and is expected to remain the same in MY 2006/07.

CROP AREA

MY 2006/07 planted area is expected to increase by 2 percent from the previous year due the development of new coffee nurseries, reforestation programs, and timely delivery of government financial support. Reportedly, in MY 2005/06, area planted decreased approximately 6 percent from the previous year due to the damage caused by hurricane Stan in main producer states. Although unofficial estimates indicate that hurricane Stan damaged 130,000 hectares, most of this land was only slightly damaged. Figures for MY 2004/05 remain unchanged to reflect recent official data.

Despite adverse weather in recent seasons, harvested area in MY2006/07 is expected to be consistent with previous estimates due to the harvesting of non-affected younger/mature trees that, in MY2005/06, were located out of Stan's range. Over the next few years, however, planted and harvested area is expected to increase due the development of new coffee nurseries and younger trees coming into bearing.

YIELDS

Yields continue to vary widely in Mexico due to variations in crop care and weather. MY 2006/07 yields are expected to improve slightly over MY 2005/06, assuming good weather and expected improvements in cultural practices. Yield figures for MY 2005/06 and 2004/05 were revised slightly downward due to adverse weather conditions, and to reflect recent official data.

CONSUMPTION

MY 2006/07 domestic coffee consumption is forecast to drop from the previous year's revised estimate. This decrease in domestic consumption is primarily driven by the expectation that higher international prices will drive increased exports, increase prices in Mexico, and dampen consumer demand. Nonetheless, this figure is still well above historic levels. Consumption estimates for MY 2005/06 and MY 2004/05 were revised significantly upward due to limited exports and affordable prices. Other factors that contributed to an increase in domestic consumption were:

1. Strong demand from consumers with mid- to high income levels for fashionable value-added coffee from chain stores; and
2. Rapid growth in internet cafes, which combine cybernetic and restaurant services, intended for the low-medium income high school and university aged populations.

STOCKS

MY 2006/07 ending stocks are forecast to decrease considerably from the previous year's revised estimate, mainly due to increased exports. Despite the lack public and private sector official statistics, unofficial ending stocks figures for MY 2005/06 and 2004/05 were revised upward to reflect the increase in stocks as a result of weaker international prices and reduced exports.

Authorities from the National Coffee System (NCS) stated that in the past Mexico has not had a reliable system to register final stock numbers at the end of each coffee season. However, starting in September 2006, the end of this marketing year, NCS will be implementing an accurate data gathering system in order to comply with International Coffee Organization (ICO) regulations. Current stock estimates reflect information obtained from industry sources.

TRADE

MY 2006/07 coffee exports are forecast to be up 35 percent from the previous year. This increase is being driven by higher international prices, caused by a tightening in world supplies. Approximately 90 percent of Mexican coffee is exported as green coffee beans, and the United States continues to be the main international market for Mexican coffee. For MY 2005/06 and MY 2004/05, exports are revised downward from the previous estimate, due to reduced domestic production and relatively low international prices.

For MY 2006/07, import levels are forecast to be down relative to the previous year's revised figure. This reduction is due to increased domestic production and high prices on the international market. The import estimate for MY 2005/06 was revised upward, driven by lower than expected production, and an increase in domestic demand for specialty and gourmet coffees. The MY 2004/05 import estimate was also revised upward to reflect the latest official data.

MARKETING

Historically, Mexico's coffee blends have not garnered top prices in foreign markets due to the use of inappropriate processing techniques, such as mixing coffee grains from different altitudes and maturity stages, and mishandling grains during the wet milling process. Through the continued enforcement of SAGARPA's "Productive Development and Quality Improvement of Mexican Coffee" program, coffee producers are being taught appropriate processing and marketing techniques. This should enable them to produce a higher-quality coffee and to create new coffee brands.

The Mexican coffee industry has funded an international campaign to promote the consumption of Mexican coffees under the "Café de Mexico" seal. This seal is used to assure the consumer of the identity, pureness, and quality of Mexican coffee, with the objective of branding Mexican coffee as a high quality product.

Currently, coffee authorities in the State of Chiapas are working to implement a fair trade system by establishing direct relationships between small producer organizations and the final consumers. The key to this trade scheme is to establish, and enforce, a minimum price for coffee in order to guarantee that the industry is selling at sustainable prices.

POLICY

Following the 2005 abolition of the Mexican Coffee Council (CMC by its acronym in Spanish), SAGARPA and coffee industry leaders established the National Coffee System (NCS). This system is designed to incorporate all sectors of the coffee production chain under one entity. The motivation for this was to allow domestic coffee producers to become more competitive and responsive to changes in domestic and international markets through improved communication and investments in domestic infrastructure.

Senators from the Mexican Congress are in the process of approving the proposed "Sustainable and Integral Development Coffee Law" that, if passed, will allow for the establishment of a new National Coffee Council. The National Coffee Council will be an autonomous and decentralized public body that will advise SAGARPA on policies and programs, especially those targeting the production, commercialization, and consumption of coffee. It will also contribute to the implementation of a coffee price stabilization fund, the establishment of a reference price, and the establishment of funds to promote Mexican coffee. Currently, this law is on hold while Congress is on recess, but it is expected that it will be voted upon in the next ordinary session of Congress, to be held September-December 2006.